

In order to determine the appropriate contractual provisions for liability and indemnification, GTE argues that one must know precisely what is being provided under the agreement and craft such provisions to take into account the agreement in its entirety, including an evaluation of each separate piece of the network and protective activities that can be undertaken with respect thereto.

Sprint maintains that GTE's position does not make sense. GTE's view, according to Sprint, is that GTE should not be held accountable for the results of its own negligence, but that Sprint should be held accountable for the results of Sprint's negligence, which essentially would result in Sprint's being held accountable for both its own negligence and GTE's negligence. Sprint asserts that GTE has control over its own network, and must be responsible for the integrity of that network and any fraud violations of the network resulting from GTE's own negligence. Sprint notes that GTE would be the only party authorized to undertake network protection measures. Sprint proposes that the responsibility to avoid negligent actions which result in fraud should be reciprocal.

The Commission has reviewed the various liability, indemnification, and disclaimer provisions contained in GTE's proposed Interconnection, Resale and Unbundling Agreement filed on October 21, 1996, and finds GTE's contract language to be unnecessarily detailed and confusing, and in some instances, unreasonable. GTE mischaracterizes the issue when it raises the specter of being required to insure against a loss claimed to have been incurred because of the absence of protection equipment which GTE claims is prohibitively expensive or otherwise impractical. The issue of whether GTE's acts or omissions constitute negligence in a particular instance is separate from the issue of whether GTE should indemnify Sprint for GTE's negligence. Essentially GTE attempts to anticipate in its proposed interconnection agreement a number of factual scenarios under

which it might incur liability, and provide for the limitation of its liability instead. In addition, GTE's disclaimer provision is particularly egregious, in that it could be interpreted in a way which would allow GTE to provide Sprint with service inferior to service GTE provides to its own customers.

The true issue here is one of parity. GTE should be held liable for harm which occurs to a Sprint customer, if the harm resulted from GTE's negligence and GTE would be responsible for that harm if it occurred to a GTE customer. Sprint is not attempting to shift any additional risk to GTE. Sprint is merely proposing that each company be responsible for its own negligence. The Commission finds that reciprocal responsibility between Sprint and GTE is appropriate and in the public interest, since this will help achieve parity among local service providers and prevent abuses by ILECs. The Commission has reviewed the provisions contained in Sprint's proposed Resale and Interconnection Agreement dated September 16, 1996, and specifically approves the language contained in the Limitation of Liability and Indemnification sections on pages 38 through 40. The parties are, of course, free to modify this language by agreement if they so choose. In the absence of agreement, the Commission finds that Sprint's provisions for limitation of liability and indemnification are more appropriate than the provisions in GTE's proposed interconnection agreement.

Conclusions of Law

The Missouri Public Service Commission has arrived at the following conclusions of law.

The parties to this case are public utilities subject to the jurisdiction of the Missouri Public Service Commission under Chapters 386 and 392 of the Revised Statutes of Missouri, 1994.

The Commission has jurisdiction to resolve this case by means of compulsory arbitration under § 252 of the federal Telecommunications Act of 1996. The Commission must conclude the resolution of the issues no later than nine months after the date on which the local exchange carrier received the request for interconnection, in this case no later than January 20, 1997. § 252(b)(4)(C). The Commission must ensure that the arbitrated agreement meets the requirements of § 251 of the Act, meets the pricing standards of § 252(d) and establishes an implementation schedule for the terms and conditions as required by § 252(c).

Based upon its findings of facts, the Commission determines that the proposed interconnection agreements submitted by the parties should be rejected and the parties should be ordered to submit to the Commission for approval a completed agreement in compliance with the findings contained in this Arbitration Order and the attached rate schedules.

IT IS THEREFORE ORDERED:

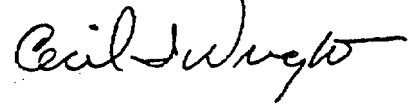
1. That Late-filed Exhibits 33, 34, 35, and 36 are hereby received into evidence.
2. That the proposed interconnection agreements submitted in this case by Sprint Communications Company L.P. and by GTE Midwest Incorporated are hereby rejected.
4. That the rate schedules attached to this Arbitration Order as Attachments A and B shall be the approved rates for all the elements and services listed therein.
5. That the parties shall prepare and submit to the Commission for approval an interconnection agreement reflecting the Commission's findings embodied in this Arbitration Order and the rates embodied in Attachments A and B.

6. That the agreement described in Ordered Paragraph 5 shall be submitted to the Commission no later than thirty (30) days after the effective date of this Arbitration Order.

7. That the parties shall comply with the Commission's finding on each and every issue.

8. That this Arbitration Order shall become effective on January 20, 1997.

BY THE COMMISSION



**Cecil L. Wright
Executive Secretary**

(S E A L)

Zobrist, Chm., McClure, Crumpton
and Drainer, CC., concur.
Kincheloe, C., absent.

Dated at Jefferson City, Missouri,
on this 15th day of January, 1997.

Resale Cost Study for GTE

(No Operator Services Included)		Total Missouri	%	GTE
Costs:		Regulated	Avoided	Avoided
Direct:		(\$000)		
6611	Product Management	1709.21	90%	1538.29
6612	Sales	4196.87	90%	3777.18
6613	Product Advertising	1501.33	90%	1351.19
6621	Call Completion services	4097.93	100%	4097.93
6622	Number Services	3190.47	100%	3190.47
6623	Customer Services	14390.65	90%	12951.58
Indirect:				
5301	Uncollectible Revenue	6370.01	14.36%	915.03
6112	Motor Vehicle Exp.	605.42	0.00%	0.00
6113	Aircraft Exp.	283.80	0.00%	0.00
6114	Spec Purpose Vehicle	0.01	0.00%	0.00
6115	Garage Work Equipment	44.39	0.00%	0.00
6116	Other Work Equipment	113.43	0.00%	0.00
6121	Land & Buld Exp.	4239.76	14.36%	609.03
6122	Furniture & Artwork	660.27	14.36%	94.85
6123	Office Exp.	841.80	14.36%	120.92
6124	Gen Purpose Computers	13686.92	14.36%	1966.08
6211	Analog Electronic Exp.	308.63	0.00%	0.00
6212	Digital Electronic Exp.	10392.15	0.00%	0.00
6215	Electro-mech Exp.	1673.48	0.00%	0.00
6220	Operators Exp.	1824.03	0.00%	0.00
6231	Radio System Exp.	40.19	0.00%	0.00
6232	Circuit System Exp.	1141.49	0.00%	0.00
6311	Station Apparatus Exp.	0.00	0.00%	0.00
6341	Lg PBX /Exp.	0.00	0.00%	0.00
6351	Public Tel Term Eq Exp.	454.36	0.00%	0.00
6362	Other Terminal Eq Exp.	462.46	0.00%	0.00
6411	Poles Exp.	1189.31	0.00%	0.00
6421	Aerial Cable Exp.	4745.61	0.00%	0.00
6422	Underground Cable Exp.	6518.79	0.00%	0.00
6423	Buried Cable Exp.	9908.41	0.00%	0.00
6424	Submarine Cable Exp.	0.00	0.00%	0.00
6425	Deep Sea Cable Exp.	0.00	0.00%	0.00
6426	Intrabuilding Network Cable Exp.	0.00	0.00%	0.00
6431	Aerial Wire Exp.	62.02	0.00%	0.00
6441	Conduit Systems Exp.	6.52	0.00%	0.00
6511	Telecomm Use Exp.	0.00	0.00%	0.00
6512	Provisioning Exp.	526.32	0.00%	0.00
6531	Power Exp.	1495.69	0.00%	0.00
6532	Network Admin Exp.	4406.40	0.00%	0.00
6533	Testing Exp.	2706.39	0.00%	0.00
6534	Plant Operations Admin	4548.39	0.00%	0.00
6535	Engineering Exp.	2180.96	0.00%	0.00
6540	Access Exp.	11837.98	0.00%	0.00
6561	Depreciation Telecom plant in Servic	60901.77	0.00%	0.00
6562	Depreciation Future Telecom Use Pl:	0.00	0.00%	0.00
6563	Amortization Exp. - Tangible	187.54	0.00%	0.00
6564	Amortization Exp. - Intangible	0.00	0.00%	0.00
6565	Amortization Exp. - Other	0.00	0.00%	0.00
6711	Executive	738.52	14.36%	106.09
6712	Planning	732.94	14.36%	105.28
6721	Accounting & Finance	3383.52	14.36%	486.03
6722	External Relations	2279.80	14.36%	327.49
6723	Human Resources	3111.84	14.36%	447.01
6724	Information Management	17438.73	14.36%	2505.02
6725	Legal	520.75	14.36%	74.80
6726	Procurement	541.72	14.36%	77.82
6727	Research and Development	1027.52	14.36%	147.60
6728	Other Gen & Admin	3171.20	14.36%	455.53
Total		216397.72		35345.23

Revenues:	Missouri:	% Included:	Included:
Local Service	73588.14	100%	73588.14
Toll Network Service	57675.16	100%	57675.16
Network Access Service	74906.43	100%	74906.43
Miscellaneous	11847.63	100%	11847.63
Total	218017.36		218017.36

Resale Percentage Discount on Revenue:

% of Resold Services Revenue	26.93%
(Local & Toll Network Service)	

Unbundled Network Elements -- Interim Rates

Summary of PSC Modified Monthly Recurring Costs For GTE of the Midwest Inc.

	Geographic Zone 1	Geographic Zone 2	Geographic Zone 3	Geographic Zone 4	Weighted Avg. Rate
<u>Unbundled Loops</u>					
2-Wire 8dB Loop	\$14.71	\$16.41	\$27.12	\$36.31	\$22.12
4-Wire 8dB Loop	\$21.69	\$24.20	\$40.00	\$53.55	\$32.62
ISDN-BRI	\$28.12	\$31.37	\$51.84	\$69.41	\$42.28
<u>NID</u>					
Basic NID		\$1.60			
12x NID		\$1.66			
<u>Cross Connects</u>					
2-Wire		\$0.31			
4-Wire		\$0.62			
DS-1		\$3.95			
DS-3		\$27.20			
<u>Local Switching</u>					
Per Originating or Terminating MOU		\$0.002591			
<u>Port Charges per Month</u>					
Analog Port		\$1.86			
DS-1 Port		\$67.72			
<u>Tandem Switching</u>					
Per MOU		\$0.001440			
<u>Interoffice Transport</u>					
Shared Transport					
Common Transport					
			Interstate Direct Trunked Transport Rates		
Direct Trunked Transport					
DS-0 Equivalent		\$3.73			
Voice Facility per ALM			Interstate Dedicated Switched Transport		
DS1 Facility			Interstate Dedicated Switched Transport		
DS1 Per Termination			Interstate Dedicated Switched Transport		
DS3 Per Termination			Interstate Dedicated Switched Transport		
<u>Database and Signalling Systems</u>					
Signalling Links and STP					
56 Kbps Links			Corresponding Interstate Rate		
DS-1 Link			\$22.44 per month		
Signal Transfer Point (STP)					
Port Termination			Corresponding Interstate Rate		
Signal Transfer Point per Message			\$0.00064 per signalling message		
Signal Control Point per Message			\$0.00108 per signalling message		
<u>Call Related Databases</u>					
Line Information Database					
ABS queries			\$0.00108 per signalling message		
Transport (ABS queries)			\$0.00108 per signalling message		
Toll Free Calling Databases					
DB800 Queries			\$0.00108 per signalling message		
<u>Dark Fiber</u>					
Buried Fiber, per fiber, per foot			need cost study		
Underground Fiber, per fiber, per foot			need cost study		
<u>Operator Services</u>					
All service types - per line, per month		\$0.289			

Summary of PSC Modified Non-Recurring Costs For GTE of the Midwest Inc.

<u>Unbundled Element</u>	<u>Non-Recurring Charge</u>
Local Loop	\$29.18
Switch Port	\$15.77

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of AT&T Communications of the)
Southwest, Inc.'s Petition for Arbitration Pursuant)
to Section 252(b) of the Telecommunications Act of) Case No. TO-97-63
1996 to Establish an Interconnection Agreement)
Between AT&T Communications of the Southwest, Inc.)
and GTE Midwest Incorporated.)
)

ARBITRATION ORDER

Issue Date: December 10, 1996

Effective Date: December 10, 1996

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and GTE Midwest Incorporated.)

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the Public Counsel and the public.

ADMINISTRATIVE

LAW JUDGE:

L. Anne Wickliffe, Deputy Chief.

ARBITRATION ORDER

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Procedural History

AT&T Communications of the Southwest, Inc. ("AT&T") filed a Petition for Arbitration with GTE Midwest Incorporated ("GTE") on August 15, 1996, asking the Commission to arbitrate an interconnection agreement between AT&T and GTE. The petition was filed pursuant to the Federal Telecommunications Act of 1996 ("the Act")¹. GTE filed a motion to dismiss on the grounds that GTE qualifies for the rural company exemption set out in § 251(c) of the Act. The Commission denied GTE's motion to dismiss, adopted a protective order and established an expedited procedural schedule. Under the Act a state commission must resolve all issues under arbitration no later than nine months after the date on which the local exchange carrier (in this case GTE) received a request for interconnection from the petitioner. Since GTE received AT&T's written

¹All statutory references are to the Federal Telecommunications Act of 1996.

request on March 12, 1996, this case must be resolved no later than December 12, 1996.

The Commission permitted no interventions in this case, other than the Office of the Public Counsel ("OPC"), and allowed only limited discovery because of the expedited schedule. The parties submitted an Issues Memorandum on October 24, 1996, setting out more than 60 unresolved issues. The Commission conducted an arbitration hearing October 28 through November 5, 1996. The parties filed post-hearing briefs.

There were a number of late-filed exhibits, none of them eliciting objections. Late-filed exhibit 56 (NRC Cost Study Assumptions) offered by GTE, and late-filed exhibits 57 (Revised Economic Lives), 58 (NID Expense Fluctuations), and 59 (Rate Comparison document), offered by AT&T will be received into evidence.

Finally, the parties submitted at the eleventh hour stipulations on sixteen issues. Some of the issues stipulated to were not presented to the Commission for arbitration. Those stipulations are attached to this Arbitration Order as Attachment C.

Findings of Fact

The Missouri Public Service Commission, having considered all of the competent and substantial evidence upon the whole record, makes the following findings of fact.

A. General Discussion.

The parties to this case submitted a dismaying number of issues to the Commission for resolution. In many cases, the parties advised the Commission that they were agreed in principle but that GTE refused to make any specific agreement without agreement on pricing. That left the Commission with the task of resolving multiple issues that could have been

resolved by the parties. The Commission asked GTE to generate Hatfield Cost Model outputs using the inputs chosen by GTE. GTE failed to complete that task, arguing that they did not maintain data in the proper format for inputting into the Hatfield Cost Model. The Commission is not pleased with the quality of the data presented by the parties and, in particular, by GTE. GTE has been less than forthcoming with information, information over which GTE has exclusive control. GTE presented witnesses often unfamiliar with the cost studies presented and unable to answer many of the legitimate questions posed by counsel and from the bench. In short, the Commission has been less than pleased with the efforts made at good faith negotiation by the parties to this case and again, in particular, by GTE.

Given the paucity of supportive detail to GTE's cost studies, and the novel and untried nature of the Hatfield Cost Model used by AT&T, the Commission will rely on "the best information available to it from whatever source derived" as permitted by the Act. § 252(b)(4)(B). The Commission has made modifications to the material presented by GTE and, in some cases, relied on tariffed rates or used FCC default proxy rates as evidence of reasonableness. GTE has adamantly maintained positions inconsistent with, and even diametrically opposed to, the clear language of the Act and of the unstayed portions of the FCC's First Report and Order, 96-325, on implementation of the Act ("FCC Order")². Therefore, the Commission finds that the rates established by this Arbitration Order should be interim rates pending a thorough investigation of costing issues for GTE.

²In the Matter of Implementation of the Local Competition Provisions in the Telecommunications Act of 1996, CC Docket No. 96-98, and In the Matter of Interconnection Between Local Exchange Carriers and Commercial Mobile Radio Service Providers, CC Docket No. 95-185, First Report and Order (Fed. Comm. Comm'n, Aug. 8, 1996); partially stayed by *Iowa Util. Board v. FCC*, No. 96-3321 (8th Cir., Octo. 15, 1996) (order granting stay pending judicial review).

B. Specific Issues Presented for Arbitration.

1. What is the proper methodology for determining the prices for GTE resold services?

GTE's position is that wholesale prices should be based on avoided, not avoidable, costs. Prices for resold services should equal retail rates minus net avoided cost, plus opportunity cost (cost of the foregone alternative). Net avoided costs should equal avoided retail costs plus the costs of providing wholesale services. GTE performed two types of avoided cost studies and proposed a discount from retail on resold services of from 7 percent to 11.81 percent.

AT&T argues that Resale Pricing should be based on avoided costs as defined by the FCC. 47 C.F.R. § 51.609³ defines "avoided retail costs" as those costs that reasonably can be avoided. See also § 252(d)(3); FCC Order ¶ 911. AT&T computed a discount rate of 39.43 percent, later amended on the record to approximately 36 percent. (Tr. 193, 205). AT&T also proposed that, should the Commission be unwilling to accept its discount figure, the Commission should consider imposing a 25 percent discount, the top of the FCC default range. 47 C.F.R. § 51.611(b); FCC Order ¶ 933.

OPC agrees that the resale discount should be based on retail prices, less avoided costs. OPC does not support GTE's position that GTE should recover its opportunity costs.

The Act states that wholesale rates must be based on retail rates less any portions attributable to "any marketing, billing, collection, and other costs that will be avoided by the local exchange carrier."

³All future references to the Code of Federal Regulations are indicated by "Reg." or "Regs.".

§ 252(d)(3). The FCC Order states that the words "costs that will be avoided" in that section includes all of the costs an incumbent LEC would no longer incur if it ceased retail operations and provided all its services through resellers. FCC Order ¶ 911. The Order also provides a beginning point for calculating an appropriate discount by specifying the cost categories that should be presumed to be avoided (accounts 6611-6613, 6621-6623, 6121-6124, 6711, 6721-6728), or not avoided (plant-specific and plant nonspecific expenses) in providing services for resale. FCC Order ¶¶ 917-919. A Missouri-specific calculation using that basic starting point yields a discount of 26.93 percent. The FCC doesn't specify that uncollectibles should be treated as 100 percent avoidable, despite the fact that when AT&T resells GTE services it is AT&T that runs the risk of nonpayment by the end user. When the discount rate is adjusted to include uncollectibles as a 100 percent avoided cost, the resulting discount figure is 31.08 percent. The FCC calculated a GTE nationwide default resale discount rate of 18.81 percent. See FCC Order ¶ 930. However, the FCC calculated a discount of 12 percent for GTE California. *Id.* at 899. These divergent figures raise a concern that GTE may be allocating a disproportionate amount of its costs to Missouri and other states. For example, GTE allocated approximately \$250,000 to its Missouri operations for airplanes that are used exclusively in the state of Texas. (Tr. 254, lines 4-15.)

The Commission finds that a discount of 31.08 percent results in just and reasonable rates for resold basic local telecommunications services. The parties should prepare an interconnection agreement that incorporates rates reflected in Attachment A to this Arbitration Order entitled "Resale Cost Study for GTE."

Issues 1(A) through 1(H): GTE presented evidence at the arbitration hearing that some of the costs sought to be excluded by AT&T as avoided costs are not avoided in their entirety. There are still some advertising, general administrative, product management, testing and sales expenses that will accompany wholesale provision of these resold services. The Commission makes the following specific findings:

1(A). Are advertising expenses in their entirety an avoided cost?

The Commission finds that advertising expenses, account 6613, are 90 percent avoided.

1(B). Are Call Completion Costs (Operator Services) in their entirety an avoided cost?

The Commission finds that call completion costs (operator services), account 6621, are 100 percent avoided as to AT&T's basic local service resale customers.

1(C). Are number service costs (Directory Assistance) in their entirety an avoided cost?

The Commission finds that number service costs (Directory Assistance), account 6622, are 100 percent avoided as to AT&T's basic local service resale customers.

1(D). Are General & Administrative costs an avoided cost when GTE is wholesaling a local service?

The Commission finds General & Administrative costs are 14 percent avoided; this category includes accounts 6121-6124, 6711-6712 and 6721-7828.

1(E). Are Product Management costs in their entirety an avoided cost?

The Commission finds that product management costs, account 6611, are 90 percent avoided.

1(F). What percentage of Testing and Plant Administration costs are an avoided cost?

The Commission finds that Testing and Plant Administration costs, accounts 6533-6534, are not avoided when GTE provides service for resale.

1(G). What percentage of sales expenses is an avoided cost?

The Commission finds that sales expenses, account 6612, are 90 percent avoided when GTE acts as a wholesale provider of resale services.

1(H). What percentage of uncollectible expenses is an avoided cost?

The Commission finds that, because AT&T runs the risk of nonpayment as to its basic local service customers, GTE's uncollectible expenses, account 5301, are 100 percent avoided.

1(I). Does the Act's methodology for determining wholesale rates recognize any new costs that might be caused by the requirement to offer services for resale?

Although it is conceivable that GTE will incur costs associated with the wholesale provision of services for resale other than the advertising, administrative, product management, testing and plant administration and sales expense included above as costs that are not avoided, GTE presented the Commission no wholesale costs or data from which to derive wholesale costs.

1(J). Is a volume discount appropriate in a resale environment, and if so, what should the discount be?

The Commission finds that volume and term discounts are appropriate in a resale environment. GTE must make available to AT&T on a nondiscriminatory basis whatever volume and term discounts it offers at retail.

2. Should the Commission adopt the FCC's "default proxy" discount rates?

GTE's position is that the Commission should not adopt the FCC's "default proxy" discount rates. GTE believes that this Commission has the duty to establish wholesale rates under the Act and the FCC exceeded its statutory authority in attempting to preempt states in this area. GTE also argues that its cost studies demonstrate that the FCC default proxy rates are below cost and they should not be applied even temporarily. GTE asserts that if the Commission applied the default proxy rates even on an interim basis it would result in irreversible harm to GTE in loss of market share and constitute an unconstitutional taking of GTE's property.

AT&T takes the position that if the Commission should find that there is no reliable state specific cost data for establishing rates the Commission should impose a resale discount of 25 percent which is within the FCC default range. AT&T proposes that unbundled element prices be based on Hatfield Cost Model outputs for Missouri.

OPC has proposed that the Commission rely on the FCC default proxy rates, not as outcome determinative, but as evidence. In other words, the Commission may use the proxy rates as an alternative source of input for determining the reasonableness of the parties' proposals.

This Commission prefers to set rates based on well-designed, reliable cost studies using Missouri-specific cost data. In this case there are numerous instances where no proposed rates are offered by the parties and no data has been offered that would enable the Commission to compute appropriate rates. In those instances, the Commission has no option but to rely on the FCC proxy rates as the only information the Commission has available to it. See § 252(b)(4)(B). In using FCC proxy rates, this Commission is not endorsing the methodology on which they are

based or proposing these rates as permanent or appropriate in all instances.

3. How should the cost of interconnection and unbundled network elements be calculated, and what prices should be established?

GTE points out that the Act recognizes that pricing must cover all of the ILEC's (incumbent local exchange companies) costs, including a reasonable share of joint and common costs. GTE states that even the FCC agrees that a TELRIC (total element long-run incremental cost) methodology does not recognize such costs. GTE argues that its proposed rates are consistent with the Act and recognize a reasonable share of joint and common costs. GTE submits that its common costs equal more than one-third of total costs, a much higher figure than the ten percent figure derived by the Hatfield Cost Model proposed by AT&T.

AT&T has requested GTE to set the prices for unbundled network elements and network element combinations at TELRIC consistent with FCC Reg. § 51.505. AT&T argues that GTE has not provided necessary cost information from which to calculate TELRIC costs so AT&T has used Hatfield Cost Model outputs for Missouri. AT&T argues that the Hatfield Cost Model complies with the FCC's requirements for forward-looking incremental costing studies and should be used to set the prices for unbundled network elements in this case.

OPC's position is that the ideal rates would be based on TELRIC, excluding embedded costs and opportunity costs. The best alternative is to adopt the FCC default proxy rates as interim rates for this case pending a thorough examination of costing and pricing in a competitive environment.

The Commission is not prepared to adopt in total either of the parties' proposed pricing methods. GTE's methodology does not conform to

the FCC's Order calling for a forward-looking model based on an efficient telecommunications company. GTE's model is designed to maintain GTE's monopoly revenue stream by recovering "opportunity costs" (essentially lost retail profit) to make GTE whole rather than produce competitive wholesale prices. GTE also includes universal service funds in the equation, resulting in an overstatement of its costs. GTE has based its costs, in some instances, on inflated network requirements. For instance, GTE's local loop cost assumes the use of a five-pair drop to each end user, despite the fact that the standard NID is designed to accept only a two-pair drop.

The Hatfield Cost Model is extremely new, the version at issue having been first introduced in 1996. This cost model, like other proxy models, is a work in progress, and has not been thoroughly tested in the market. In this proceeding the Commission finds that the Hatfield Cost Model cannot be used to set rates for all unbundled network elements. It is unable to generate proposed rates for non-recurring charges which constitute a large portion of the cost of providing basic local service. The Hatfield Cost Model currently develops costs at the wire center level; a reconfiguration to develop costs at the exchange level would make this model more useful since a new entrant must provide service to an entire exchange within which prices should be uniform. In short, the Hatfield Cost Model at its present stage of development is not an ideal instrument for the setting of rates for unbundled network elements.

The Commission finds that in the absence of reliable costing data the prices established in this proceeding must be interim rates. These rates will be subject to adjustment when the Commission is able to conduct a thorough examination of the costing issues in a proceeding conducted with